

FINANCIAL OVERVIEW

The City of Columbus faces the most challenging budget process in over 40 years in 2003. A significant actual decline in general fund revenues from 2001 to 2002 combined with minimal projected revenue growth in 2003 has left the city facing a \$34 million gap between projected 2003 revenues and even a bare-bones level of spending necessary to sustain essential city services. Even with a concentrated effort over the past two years to reduce spending, resulting in a much narrower gap than would have otherwise been the case, 2003 has presented unprecedented financial challenges to the city. The gap in 2003 has been partially filled through one-time transfers from other funds that will not be available on a sustained basis.

Our city is not alone among either Ohio governmental entities or those in other states in preparing budgets under adverse economic circumstances derived from a national recession. In fact, we are in a better situation than several of the other large cities in Ohio, as the table below indicates. Income tax is a major revenue source at the local level.

Income Tax Comparison with Other Major Ohio Cities				
City	Tax Rate	2001 Actual Growth Over 2000	2002 Estimated Growth Over 2001	2002 Actual Growth Year-to-Date Sept. 2002
Columbus	2.00%	3.5%	2.4%	0.2%
Cincinnati	2.10%	3.1%	1.6%	-3.2%
Cleveland	2.00%	-1.0%	1.0%	-3.0%
Dayton	2.25%	1.1%	1.6%	-6.7%
Toledo	2.25%	-1.9%	1.9%	1.9%

The city has identified efficiencies in the provision of services, which have greatly reduced spending.

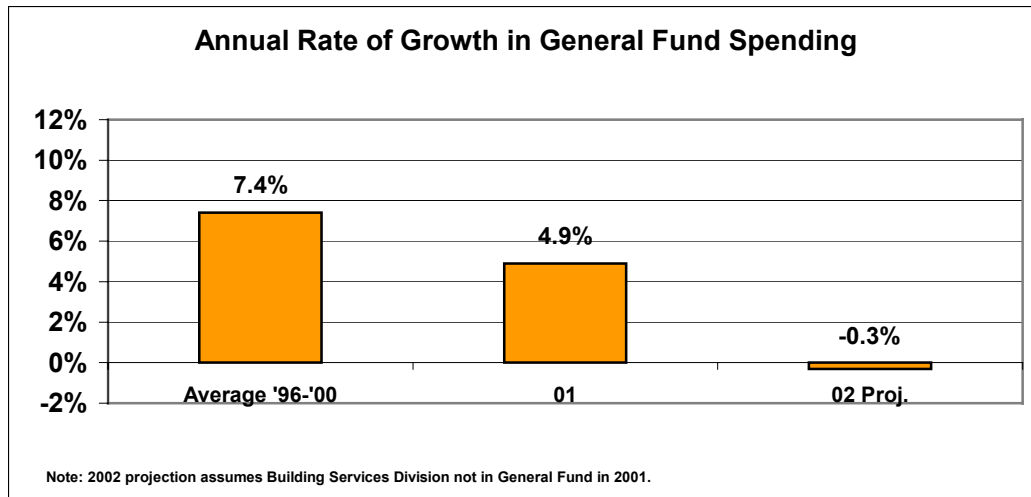
In 2000, the city commenced an operations review both to identify the outcomes sought from various services provided and to identify operational changes which might allow us to provide those services related to desired outcomes in a more efficient manner. A system of “management by results” has been instituted which includes regular measurement of our success in achieving the desired outcomes. This system of performance measurement is becoming the basis of utilizing performance data in the budget process.

This new system of managing has resulted in concrete changes, which have improved the delivery of services while also reducing expenditures. Technology functions that were at one time dispersed throughout city agencies have been consolidated in the Department of Technology, allowing for a more efficient and economical use of technology. Purchases are coordinated at better prices and a single strategy prevents the use of different and incompatible technology by different departments. Code enforcement functions have been consolidated within one department, the Development Department, allowing cross-training of employees, coordination of services, and implementation of new projects such as Neighborhood Pride. The fiscal, legislative, and human resources functions from six divisions in the Department of Public Service have also been consolidated into one operation, allowing lowered staffing levels.

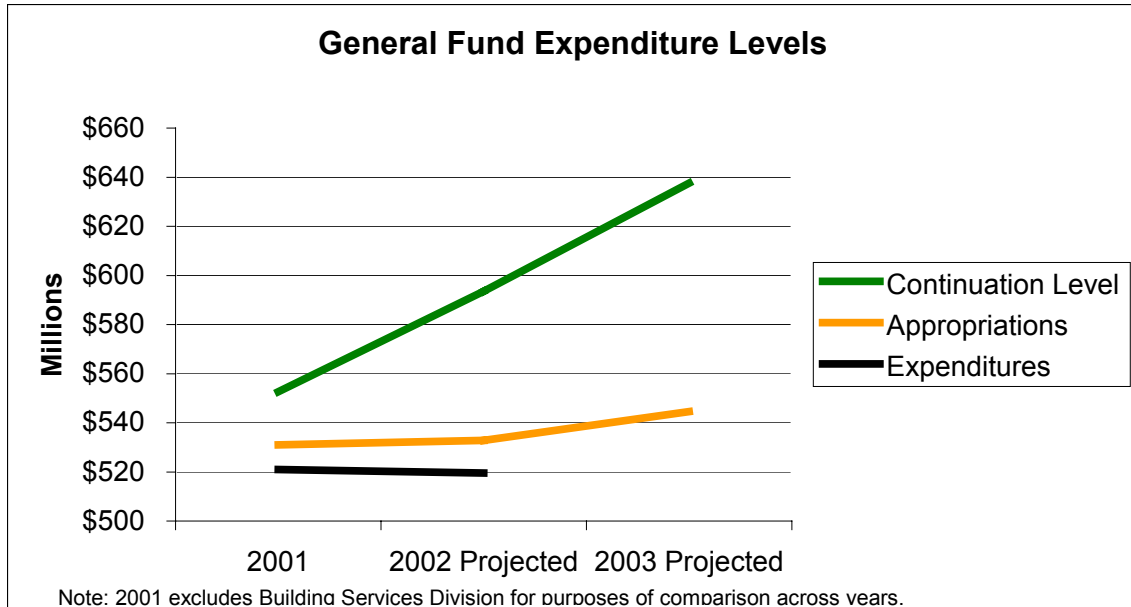
In 2002, the plan review function for commercial and residential development, along with associated inspection functions, were consolidated into a One-Stop-Shop program. This program is funded through a self-sustaining fund, freeing up general fund resources, and services are guaranteed to customers using specific performance standards. The Division of Fleet Management has been designated as the central agency for automobile purchasing, reducing expenditures considerably. Finally, funding has been secured from the Columbus Board of Education to reimburse the city for the cost of the School Resource Officers provided to area high schools.

Hiring controls have been in place for two years with all hiring being reviewed by the Finance Department. As of the end of September 2002 there were 120 fewer civilian employees funded by the general fund than had been budgeted. Legislation expending general fund dollars now must be approved by the Finance Department, and it also reviews all purchases of \$5,000 or more not requiring legislation. As spending has been reduced this year, legislation has been adopted reducing appropriation authority so that savings are not expended for unbudgeted purposes.

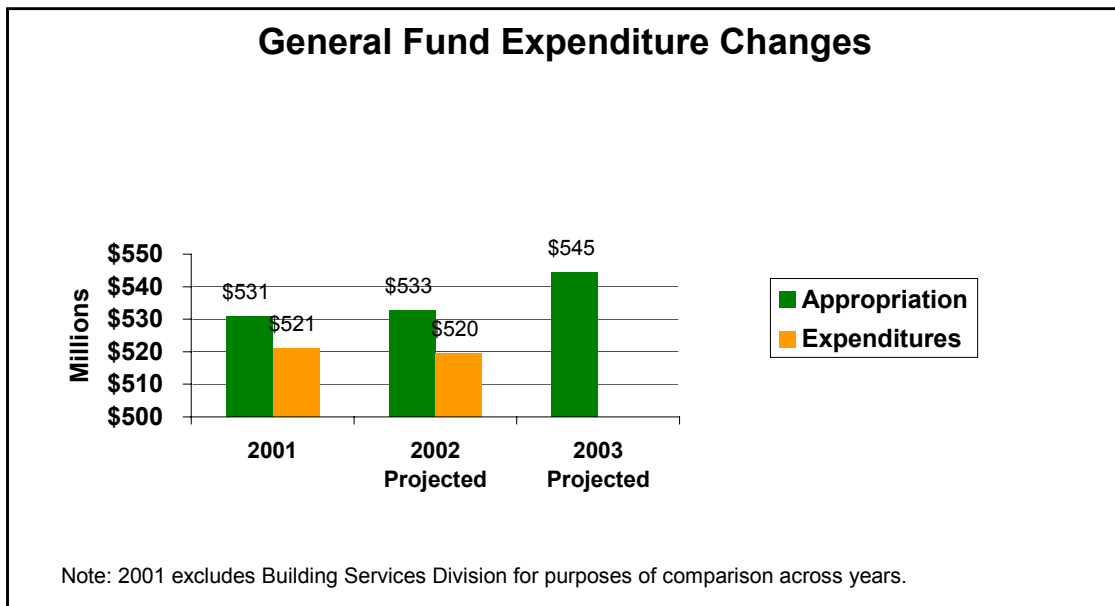
Our new system of management by results, with increased opportunity for a more efficient delivery of services, has allowed for a significant reduction in spending growth in our general fund operations. As the chart below indicates, an average annual rate of growth in general fund spending of 7.4 percent over the five years preceding the operations review effort declined to 4.9 percent in 2001. The 2002 spending is expected to actually reflect a slight decline in spending of 0.3 percent.



As the 2001 budget was being prepared in the fall of 2000, a “continuation” budget for 2001 was determined to require \$553 million (not including Building Services which was to be moved to its special revenue fund). Resource limitations required \$22 million in spending cuts to balance that budget. Had a budget of the \$553 million magnitude been funded, the continuation funding for 2002 and 2003 would have been \$594 million and \$638 million, respectively, if a growth rate of 7.4 percent were assumed (the average annual rate of expenditure growth from 1996-2000). As the chart below indicates, the actual general fund budget for 2002 was more than \$60 million below the level of spending increases occurring throughout the preceding five years, and that difference in 2003 approaches \$95 million. This reflects the efforts to control spending with a more efficient provision of services as outlined above.

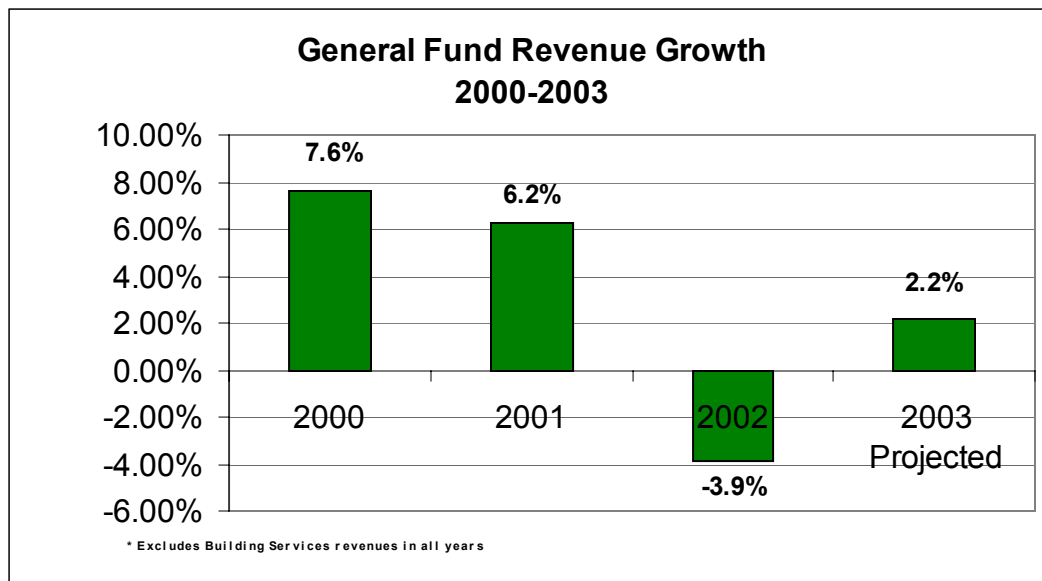


The following chart allows a comparison between the reduced levels of budgeting in 2001-2002 and actual or projected expenditures for those two years. Each year, spending was or is projected to be \$10-13 million less than that appropriated, again reflecting successful efforts to reduce spending. Although the budget for 2003 increases by \$12 million from that in 2002, this increase is primarily due to costs over which the city has no control, namely increases in workers compensation and health insurance premiums totaling \$12.7 million and mandatory expenses associated with the new third-party EMS reimbursement program, estimated at \$3.5 million (anticipated EMS revenues completely offset these expenses).



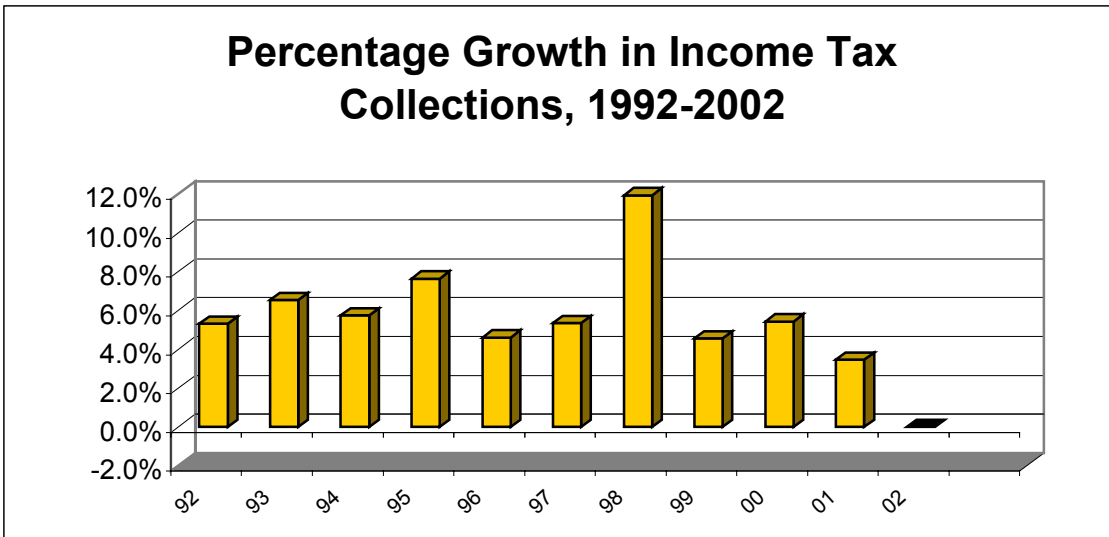
Actual decline in general fund revenues has more than offset the significant expenditure reductions.

Revenue growth from 1996-2000 for the general fund averaged 6.3 percent per year. However, a slightly higher average expenditure growth of 7.4 percent per year during those years led to declining year-end balances in the general operating fund. This in turn sparked the creation of the Mayor's Economic Advisory Committee in the summer of 2001 to recommend measures to address this persistent imbalance. A report issued by the committee recommended both spending controls and new revenue measures, most of which have been undertaken and adopted. However, simultaneous to these efforts, the national economy deteriorated, turning a small but persistent imbalance into a much larger cyclical budget gap. General fund revenue history for 2000-2002, with projections for 2003, is shown below.



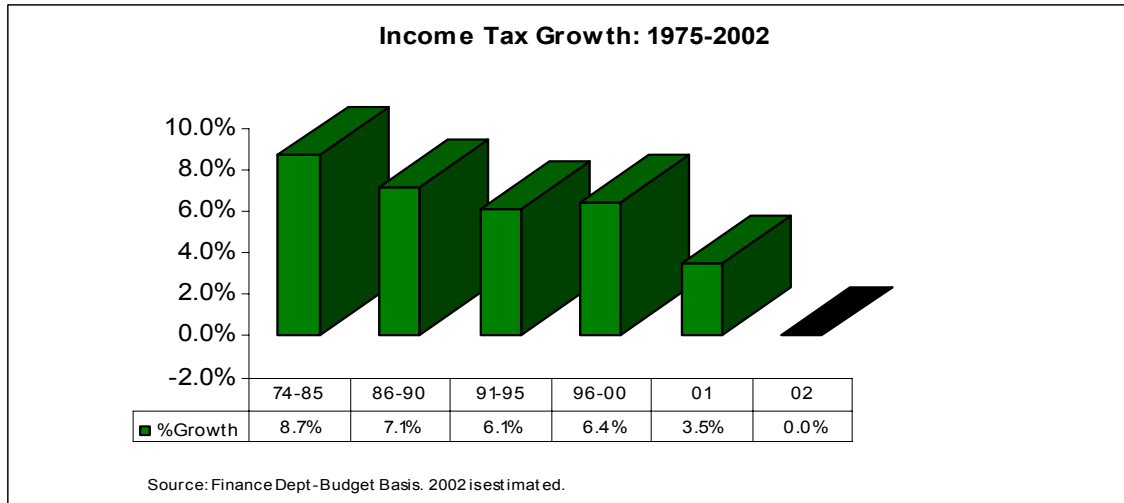
General fund revenues grew a healthy 7.6 percent from 1999 to 2000. Although the rate of growth declined to 6.2 percent in 2001, consistent with its long-term average, about 3.6 percent of this growth was attributed to one-time revenue consisting of a workers compensation premium rebate and the cancellation of an unusually high number of encumbrances. As the chart indicates, revenues actually are projected to decline this year by 3.9 percent, and the rate of growth in 2003, without a car rental tax, is only 2.2 percent.

The city income tax represents nearly two-thirds of the revenue to the general fund. As one can see from the graph below, the steady growth in this revenue throughout the 1990's has been significantly reduced beginning in 2001, with virtually no growth in 2002.



The Columbus economy has the healthy underpinnings that should enable it to withstand economic downturns and recover fully once the unemployment picture improves.

Although Columbus had experienced steady growth in income tax revenues for the period 1960-2000, even during recessions, the average annual growth rate slowed in the 1990's, and then rapidly declined during the current economic downturn, as illustrated in the table below. Excluding sharp and isolated increases in 1995 and 1998, the growth rate has not reached seven percent annual growth in any year since 1987 and had hovered in the 4.5-6.5 percent range over the period until 2001.



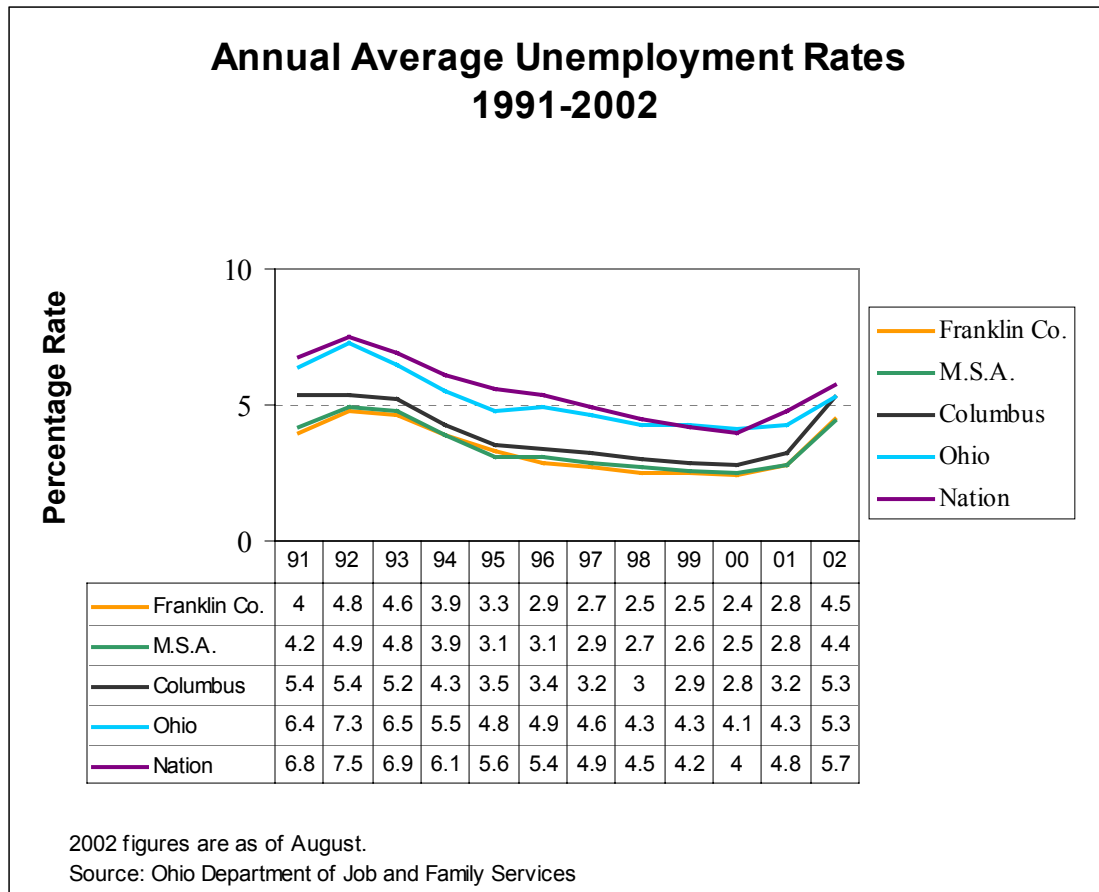
Nevertheless, Columbus' economy has been generally healthy over the past decade, due to growth in population and geographic area accompanied by stability in the business, residential, and political environments. A low cost of living, a high quality labor force and an emphasis on education further ensure a strong and stable economic outlook despite the current short-term challenge.

Columbus' economy is based upon a diverse mix of employment, with the largest sectors being service, retail trade, state and local government, finance/insurance/real estate, and manufacturing. This diversity has enabled Columbus to maintain economic prosperity and stability over the long term, while enabling it to weather economic downturns such as the current one with less difficulty than many cities.

The strong service oriented economy of Columbus, along with large government employment, has helped minimize the effects of recessions in the past. Nine of the 14 largest employers in the city are governmental or government-oriented: the State of Ohio, The Ohio State University, Ohio State University Hospitals, United States Postal Service, the United States Defense Construction Supply Center, the Columbus Public Schools, the City of Columbus and Franklin County.

While the recent economic downturn has brought many challenges, the city's future continues to be bright. The presence in Columbus and its immediate suburbs of 13 educational institutions, ranging from technical and design institutes to liberal arts colleges and a major research university, assure a continuous pool of well-educated and trained job candidates.

Unemployment continues to be low when compared to state and national levels, as shown in the following graph. The Columbus region has had consistently lower rates of unemployment, primarily due to the relative stability in the government, education and other service-oriented employment sectors mentioned above. As of August 2002, the unemployment rate in the Columbus MSA was 4.4 percent, the Franklin County rate was 4.5 percent, and the Columbus rate was 5.3 percent, the same rate as the State of Ohio. The national rate was 5.7 percent in that same month.



The bond rating awarded the city by both Moody's Investors Service and Standard and Poor's Corporation attests to the soundness of Columbus' long-range financial outlook. Bond ratings of Aaa and AAA, respectively, awarded to the city in 1995, have since been maintained. These ratings represent the highest achievable for long-term debt, making Columbus the third largest city in the nation, behind Dallas and Indianapolis, with this dual distinction. These ratings afford Columbus the opportunity to realize savings in the cost of long-term financing, affirm investor's confidence in investment in Columbus, and help attract new businesses to the area.

The City of Columbus' financial integrity is enhanced by the existence of two general reserve funds: the economic stabilization fund (AKA rainy day fund) and the anticipated expenditure fund (formerly known as the 27th pay period fund). The rainy day fund was created in 1988 with an initial deposit of \$4 million to create a reserve for unforeseen future events that could disrupt basic city services. The goal of the fund was to reach five percent of general fund expenditures. Until 1998, annual deposits of \$1 million were made to the fund. In 1998, the fund received an infusion of \$7 million from a refund from the Ohio Bureau of Workers Compensation, allowing for the attainment of the five percent reserve level and maintenance of approximately five percent with no additional deposits required through 2010, except to the extent the fund is actually used (as proposed in the 2003 budget).

The anticipated expenditure fund was established in 1994 to plan for the next occurrence of a fiscal year in which there are 27 pay periods (2005), rather than the standard 26. The purpose of the fund was later broadened to include other contingencies. This fund received \$5.33 million in refunded monies from the Ohio Bureau of Workers Compensation in 1998. If annual deposits of \$750,000 are made in the 2003-2005 period, the fund will accumulate the projected required amount of \$13.5 million for the next such pay period.

Summary tables showing the projected balances of both reserve funds are set forth below.

Economic Stabilization Fund Recommended Future Deposits (000's Omitted)					
Year	Deposit	Investment Earnings*	Expended	Year-End Balance	% of GF Budget
1999	0	1,224		23,807	5.11%
2000		1,442		25,249	5.00%
2001		1,621		26,870	5.06%
2002		1,200	0	28,070	5.40%
2003		842	12,400	16,512	3.03%
2004		495	6,000	11,007	1.98%
2005	6,000	680		17,688	3.07%
2006	6,000	948		24,635	4.15%
2007	6,000	1,225		31,861	5.07%
2008		1,593		33,454	5.28%
2009		1,673		35,126	5.01%
2010		1,756		36,883	4.97%
2011		1,844		38,727	4.93%
* Assumes investment rates as follows: three percent in 2003 and 2004, four percent in 2005-2007, and five percent in 2008 and beyond					

Anticipated Expenditure Fund Recommended Future Deposits (000's Omitted)			
Year	Deposit	Expended	Year-End Balance
2000			9,886
2001	750	83	10,552
2002	750		11,302
2003	750		12,052
2004	750		12,802
2005	750	13,500	52
2006	750		802
The Finance Department estimates the cost of the next occurrence of a 27 th pay period in the year 2005 at a cost of \$13.5 million.			

Through this year, the economic stabilization fund has never been drawn upon for the purposes for which it was established. A policy regarding its use has been adopted and is set forth in the Financial Policies section of this document. The 2003 budget proposes its use consistent with that policy. Projected revenues for 2002 and 2003 at levels lower than that of 2001 certainly establish a temporary lowering of revenue due to an economic recession, and a continuation of basic city services at acceptable levels cannot be maintained without the use of a portion of this fund. The amount is estimated to be \$12.4 million but will

depend upon the size of the available insurance fund surplus at the end of 2002. Financial prudence dictates that the combined transfer from these two funds not exceed \$24.4 million.

The temporary lowering of general fund revenue by more than \$30 million below that required to sustain basic city services means that even a resumption of normal revenue growth in 2003 will leave general fund revenues enough below anticipated spending requirements in 2004 that a second use of this fund may be required in 2004. The city will continue to examine new sources of revenue and work to further reduce expenditures during this time frame. Consistent with the policy on the use of this fund, the city anticipates replacing any monies so used at a rate equal to at least \$5.4 million per year beginning in 2005.

2003 Budget Scenario

The 2003 budget was balanced with limited resources while employing certain key principles, as follows:

- Build a budget from the ground up which is keyed to the city's strategic plan implementing the Columbus Covenant
- Focus on the basic priorities in city services for the neighborhoods—police and fire protection, refuse collection, and basic public health services
- Review all program areas to identify activities the city should no longer be engaged in, given limited resources
- Continue to implement performance management, working toward providing performance measures for all city programs, which will inform the budget process
- Promote efficiencies in government through reorganization of divisions, consolidation of functions, review of management structure and centralized fleet management
- Implement recommendations of the city's Operations Review and Economic Advisory Committee
- Rely on attrition to the extent possible in reducing employment with no layoffs for uniformed police and fire personnel
- Employ hiring controls and review general fund spending ordinances and purchases to keep 2002 spending below appropriation levels
- Limit the use of the economic stabilization fund and insurance fund surplus to that amount necessary to sustain basic city services
- Monies used from the economic stabilization fund must be replaced at a rate equal to at least \$5.4 million per year beginning in 2005
- Funds in the anticipated expenditure fund need to remain available for the extra (27th) pay period in 2005

General Fund Pro Forma

A general fund pro forma operating statement is provided herein, which projects the city's future general fund financial outlook. The pro forma bases year 2003 revenues on the City Auditor's official Estimate of Available General Fund Resources, except as noted. The following assumptions were used in developing the pro forma.

Pro Forma Operating Statement Assumptions

Like all financial forecasting tools, pro forma projections are based on a series of assumptions that invariably do not prove totally accurate over time. Moreover, projections become less certain the further one extends the forecasting horizon. This pro forma statement assumes that year-end deficits, which are not permissible per state law, will be corrected through expenditure adjustments in order to force a positive year-end fund balance. The document presented herein represents the Finance Department's best estimate of the city's financial status into the future, given the major assumptions below. Revenue growth assumptions for most sources in 2004 and beyond are based upon an historical ten-year average.

Expenditure Assumptions

- The standard inflation rate for non-personnel items is two percent in 2003 and three percent thereafter.
- Personnel costs (excluding insurance costs) are assumed to grow by four percent annually, to take into account a combination of merit increases, step increases, and collectively bargained increases in wages and other pay benefits.
- Insurance costs will grow by 5.5 percent in 2003 and by twelve percent annually thereafter.
- The Divisions of Police and Fire reflect the costs of new and planned recruit classes sufficient to maintain existing staff levels.
- Annual city-wide account projections include costs associated with division termination pay and contingencies for yet-to-be-negotiated pay increases, increased insurance costs, legal settlements, and other potential obligations.
- Annual deposits of \$750,000 will be made to the anticipated expenditure fund.
- No deposits to the economic stabilization fund are projected through 2004. Deposits of \$6 million per year are projected for the years 2005-2007.

Revenue Assumptions

- Income tax receipts will grow by 3.6 percent in 2003 and by 6 percent in 2004 and thereafter.
- Property taxes will grow by 6.6 percent in 2003 and by 4.75 percent in 2004 and thereafter.
- Shared revenue is projected to grow by 2.7 percent in 2003 and seven percent thereafter.

- Investment earnings decline by 36 percent in 2003 and then grow by 12.5 percent thereafter.
- Hotel/motel tax revenue is projected to grow by four percent in 2003 and 4.75 percent in 2004 and beyond.
- EMS revenue will grow by five percent in 2004 and beyond.

Division Specific Assumptions

- Two police recruit classes, one in June of 20 recruits and one in December of 40 recruits are funded in 2003. Thereafter two police classes of 35 recruits each are projected through 2012.
- One fire recruit class of 33 recruits is funded in 2003 and one class of 35 each year thereafter is funded through 2012.

GENERAL FUND PRO FORMA OPERATING STATEMENT

Resources:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Beginning Balance	\$30,811,360	\$29,794,232	\$9,818,000	\$10,045,029	\$9,854,450	\$11,077,830	\$15,901,816	\$24,771,972	\$43,864,254	\$66,160,495	\$91,701,244	\$120,510,682
Income Tax	329,209,954	329,200,000	341,000,000	361,460,000	363,148,000	406,137,000	430,505,000	456,335,000	483,715,000	512,738,000	543,502,000	576,112,000
Property Tax	40,009,498	40,800,000	43,500,000	45,566,000	47,730,000	49,997,000	52,372,000	54,860,000	57,466,000	60,196,000	63,065,000	66,050,000
Hotel/Motel Tax	2,735,265	2,740,000	2,860,000	2,985,000	3,127,000	3,276,000	3,432,000	3,595,000	3,766,000	3,945,000	4,132,000	4,328,000
Shared Revenues	61,931,906	56,370,000	57,911,000	61,965,000	66,303,000	70,944,000	75,910,000	81,224,000	86,910,000	92,994,000	99,504,000	106,469,000
License and Permit Fees	11,463,618	1,410,000	1,480,000	1,650,000	1,840,000	2,052,000	2,288,000	2,561,000	2,844,000	3,171,000	3,536,000	3,943,000
Fines and Penalties	12,923,844	14,582,000	15,050,000	15,426,000	15,812,000	16,207,000	16,612,000	17,027,000	17,453,000	17,889,000	18,336,000	18,794,000
Investment Earnings	29,139,770	19,200,000	12,250,000	13,781,000	15,504,000	17,442,000	19,622,000	22,075,000	24,834,000	27,938,000	31,430,000	35,359,000
Charges for Service	26,440,072	29,112,000	34,590,000	36,172,000	37,825,500	39,555,125	41,364,531	43,256,408	45,234,478	47,303,502	49,467,277	51,730,641
All Other Revenue	16,462,281	6,286,000	2,151,000	2,196,000	2,242,800	2,291,472	2,342,091	2,394,735	2,449,484	2,506,423	2,565,640	2,627,226
Total Revenues	530,316,208	499,706,000	510,782,000	541,201,000	573,532,300	607,901,597	644,447,622	683,318,142	724,671,962	768,680,925	815,527,917	865,412,867
Fund Transfers	0	0	24,400,000	6,000,000								
Total Available Resources	561,127,568	529,500,232	545,000,000	557,246,029	583,386,750	618,979,427	660,349,438	708,090,114	768,536,216	834,841,420	907,229,161	985,923,549
% Change in Total Revenues from Prior Year	6.25%	-5.77%	2.22%	5.96%	5.97%	5.89%	6.01%	6.03%	6.05%	6.07%	6.09%	6.12%
% Change in Total Resources from Prior Year	4.55%	-5.64%	2.93%	2.25%	4.89%	6.10%	6.68%	7.23%	8.54%	8.63%	8.67%	8.67%
Expenditures:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Development	29,483,328	18,550,597	17,996,964	18,408,722	19,034,338	19,721,181	20,795,985	21,941,844	23,203,500	24,551,623	25,992,803	27,539,375
Fire	133,075,329	138,113,959	146,292,001	149,639,060	154,724,510	160,307,649	169,044,416	178,356,763	188,614,392	199,572,888	211,287,817	223,859,442
Governmental Services	61,007,327	63,851,760	77,630,151	79,406,275	82,104,879	88,703,767	89,703,763	94,646,444	100,068,615	105,903,763	112,120,314	118,791,473
Health	19,499,378	17,169,858	16,669,572	17,050,960	17,630,433	18,266,617	19,262,147	20,323,492	21,492,092	22,740,783	24,075,667	25,508,169
Judicial Services	20,531,525	20,322,690	20,645,608	21,117,965	21,835,654	22,623,581	23,866,566	25,171,063	26,618,399	28,164,928	29,818,209	31,592,392
Other Safety	15,054,285	17,035,272	17,258,654	17,653,520	18,253,471	18,912,136	19,942,848	21,041,699	22,251,596	23,544,414	24,926,471	26,409,596
Police	197,070,860	193,466,282	196,824,646	203,359,194	210,270,311	217,857,767	229,731,036	242,369,217	256,326,597	271,219,172	287,139,737	304,224,552
Recreation and Parks	29,759,816	27,440,540	25,113,586	25,688,167	26,561,174	27,519,618	29,019,437	30,618,408	32,378,966	34,260,184	36,271,257	38,429,397
Refuse Collection	24,045,542	21,550,118	21,380,073	21,869,234	22,612,455	23,428,412	24,705,260	26,066,520	27,565,345	29,166,892	30,878,988	32,716,288
Transportation and Fleet	1,055,926	1,431,155	2,393,716	2,448,483	2,531,694	2,623,048	2,766,004	2,918,411	3,086,220	3,265,529	3,457,216	3,662,920
Operating Expenditures	530,583,336	518,932,231	544,204,971	556,641,580	575,558,919	596,327,611	628,827,466	663,475,860	701,625,722	742,390,176	785,968,479	832,733,604
Less Projected Lapsed Appropriation			(10,000,000)	(10,000,000)	(10,000,000)							
Projected Operating Expenditures			534,204,971	546,641,580	565,558,919	596,327,611	628,827,466	663,475,860	701,625,722	742,390,176	785,968,479	832,733,604
Percent Change/Prior Year	5.04%	-2.20%	2.94%	2.33%	3.46%	5.44%	5.45%	5.51%	5.75%	5.81%	5.87%	5.85%
Rainy Day Fund Deposits	0	0	0	0	6,000,000	6,000,000	6,000,000	0	0	0	0	0
Anticipated Expenditure Fund Transfer	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Total Expenditures/Transfers	531,333,336	519,682,231	534,954,971	547,391,580	572,308,919	603,077,611	635,577,466	664,225,860	702,375,722	743,140,176	786,718,479	833,483,604
Percent Change/Prior Year	5.03%	-2.19%	2.94%	2.32%	4.55%	5.38%	5.39%	4.51%	5.74%	5.80%	5.86%	5.94%
Required Expenditure Reductions and/or Revenue Increases	0	0	0	0	0	0	0	0	0	0	0	0
Annual Surplus/Deficit:	(1,017,128)	(19,976,231)	227,029	(190,580)	1,223,381	4,823,986	8,870,156	19,092,283	22,296,240	25,540,749	28,809,438	31,929,263
Cumulative Surplus/Deficit:	\$29,794,232	\$9,818,000	\$10,045,029	\$9,854,450	\$11,077,830	\$15,901,816	\$24,771,972	\$43,864,254	\$66,160,495	\$91,701,244	\$120,510,682	\$152,439,945

Footnotes:

Revenue estimates for 2004 and beyond are those of the Department of Finance and not the City Auditor.

Cumulative deficits are not possible since each budget year must be balanced.

2003 Fund Transfer of \$24.4 million will be comprised of the surplus in the Insurance Trust Fund as of 12/31/02, with the balance coming from the Economic Stabilization Fund.

